UNITED
NATIONS

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United Nations
Conference
on Trade and
Development

Distr.
LIMITED

TD/B/LDC/AC.2/L.2
13 June 1995

Original: ENGLISH

HIGH-LEVEL INTERGOVERNMENTAL MEETING ON THE MID-TERM GLOBAL REVIEW OF THE IMPLEMENTATION OF THE PROGRAMME OF ACTION FOR THE LEAST DEVELOPED COUNTRIES FOR THE 1990S
Meeting of Governmental Experts of Donor Countries and Multilateral and Bilateral Financial and Technical Assistance Institutions with Representatives of the Least Developed Countries
Geneva, 29 May 1995
Agenda item 3

The Meeting of Governmental Experts of Donor Countries and Multilateral and Bilateral Financial and Technical Assistance Institutions with Representatives of the Least Developed Countries which met in Geneva from 25 May to 2 June 1995 agreed to transmit the following text as a contribution to the High-level Intergovernmental Meeting on the Mid-term Global Review of the Implementation of the Programme of Action for the Least Developed Countries for the 1990s[1]

PART ONE: DRAFT ASSESSMENT OF PROGRESS IN THE IMPLEMENTATION OF THE PROGRAMME OF ACTION FOR THE LEAST DEVELOPED COUNTRIES FOR THE 1990S AT THE NATIONAL LEVEL AND PROGRESS IN INTERNATIONAL SUPPORT MEASURES

BACKGROUND

1. The Trade and Development Board, at the second part of its 41st session, reviewed the status of preparations for the High-level Intergovernmental Meeting on the Mid-term Global Review of the Programme of Action for the Least Developed Countries for the 1990s. In its Agreed Conclusions 423 (XLI) the Board felt that "the proceedings of the High-level Intergovernmental Meeting could be significantly enhanced if a comprehensive assessment of the progress in the implementation of the Programme of Action by Governments was made available to

[1] Annexed to the report of the Meeting of Governmental Experts of Donor Countries and Multilateral and Bilateral Financial and Technical Assistance Institutions with Representatives of the Least Developed Countries in accordance with a decision taken at its (closing) plenary meeting on 2 June 1995.

GE.95-52041

the High-level Meeting. In this connection, the Board requested that the Chairman of the Special Sessional Committee "undertake intensive consultations with States members of UNCTAD with a view to arriving at an assessment of progress made in the implementation of the Programme of Action, together with possible recommendations for consideration at the Donor/Recipient Meeting."

2. The following paragraphs respond to the Trade and Development Board's request. They take into account, inter alia, the recommendations of the Board as outlined in its Agreed Conclusions 423 (XLI), and the outcomes of the annual reviews of the Trade and Development Board on Progress in the Implementation of the Programme of Action. It also draws upon the analyses prepared by the UNCTAD secretariat, notably as reflected in LDCs Annual Reports, as well as contributions made specifically for the High-level Meeting by the Economic Commission for Asia and Pacific, and the Economic Commission for Africa. Finally, the assessment also draws upon the contributions from a number of specialized agencies of the United Nations.

INTRODUCTION

3. The Second United Nations Conference on the Least Developed Countries (LDCs), held in Paris in 1990, adopted the Paris Declaration and the Programme of Action for the LDCs for the 1990s. The basic principles and aims of the Programme of Action are as valid today as when they were drawn up. The prime objective of the Programme of Action is "to arrest the further deterioration in their (LDCs') socioeconomic situation, to reactivate and accelerate growth and development in these countries and, in the process, to set them on the path of sustained growth and development." The policies and measures in support of these objectives, set out in the Programme of Action, revolve around the following major areas: establishment of a macroeconomic policy framework conducive to sustained economic growth and long-term development; development and mobilization of human resources; development, expansion and modernization of the productive base; reversing the trend towards environmental degradation, promotion of an integrated policy of rural development aimed at increasing food production, enhancing rural income and enhancing the non-agricultural sector activities; and the provision of adequate external support.

4. It is noted [with great concern] that only one country, i.e. Botswana, has graduated from the group of LDCS since the early 1970s. [On the contrary,] the number of LDCs has increased from 41 at the time of the Paris Conference in September 1990 to 48 countries at present, [without a corresponding increase in support measures.]

I. MAIN DEVELOPMENTS DURING THE EARLY 1990S

5. Despite vigorous efforts by LDCs to implement economic reforms as envisaged by the Programme of Action, the LDCs as a group have not been able to meet many of the objectives of the Programme of Action and their overall socio-economic situation has continued to deteriorate. Several factors, both domestic and external, have contributed to the overall socioeconomic deterioration in the LDCs. The domestic factors include: civil strife in some LDCs [- and the resulting economic burdens in some neighbouring countries-]; political instability; macroeconomic imbalances, manifested in large fiscal and balance-of-payments deficits; [unfavourable impact of policy reforms in some cases;] poor performance of the productive sectors, including lack of adequate physical infrastructure. The external factors include: the decline of LDCs' share in world trade [leading to their continued marginalization], the inadequacy of external finance due to widespread cuts in aid budgets, the emergence of new claimants for aid, [and more stringent aid conditionalities]. Other factors include recurrent natural disasters and the persistence of debt-servicing difficulties.

6. [In conjunction with the world recession] [Thus, as a result of the above factors], their real GDP growth rate averaged only 1.7 per cent per annum during the first four years of the 1990s, having declined from the growth rate of 2.3 per cent achieved during the 1980s. [The situation in the LDCs did not improve even after recovery in developed countries.] With population growing at an average annual rate of 2.9 per cent, GDP per capita suffered an annual 1.1 per cent decline thus threatening to worsen the already precarious income and consumption levels as well as to widen the savings - investment gap in these countries.

7. While the slow-down in economic growth rates was common to both Asian and African LDCs, the former which benefited, inter alia, from a relatively favourable regional environment, attained an average per capita output growth of 1.4 per cent in the 1990s, as compared with a 2.1 per cent per annum fall suffered by the latter. There has also been significant inter-country variations in growth performance. Thus, it is encouraging to note that despite the poor performance for the group as a whole, nearly one-quarter of LDCs were able to attain positive per capita income gains in the early 1990s. A strong expansion of agricultural production, internal stability, strong government commitments, a sound political and regulatory framework for development, complemented by significant external support, among other factors, have contributed to raising economic growth rates.

8. The worsening of socioeconomic conditions in many LDCs in the 1990s has increasingly translated into a marked deterioration in human welfare as reflected in reduced caloric intakes, increased mortality and morbidity, re-emergence and spread of diseases, lower school enrolment, further marginalization of the weakest members of society, and other signals of acute social distress, as further reviewed below in section V.

9. The external environment facing LDCs has remained [unfavourable] [difficult]. As these countries moved into the 1990s, despite an increase in exports of manufactured goods, their share in world exports and imports fell by more than three-eighths and one-third from the already low levels of 0.7 per cent and 1.0 per cent respectively in 1980. Despite vigorous efforts to diversify the largely commodity-based composition of their exports, LDCs' economies continued to be vulnerable to vicissitudes of instability in commodity markets. Official development assistance, on which LDCs depend principally for their external financing, registered a decline over the early 1990s, and aid outlook remains uncertain. Although a large number of LDCs have adopted national regulatory frameworks conducive to foreign investment, they have not yet attracted significant FDI. Despite measures adopted to alleviate their external debt burden, such a burden continued to be unsustainably high for many LDCs and is seriously compromising their adjustment and development efforts.

10. Some developing countries are also important development partners of LDCs. They have technical assistance and training programmes from which the latter have benefitted. [The potential of expanded economic and technical cooperation between LDCs and other developing countries merits further exploration and support by the international community especially in view of the new opportunities emerging with the dynamic growth experience of a number of those other countries.]

11. Several LDCs have been taking a number of measures to promote trade with neighbouring countries. For example, a number of African LDCs, especially land-locked ones, have sought to establish some form of free trade area or customs union at the subregional level. However, establishing such subregional arrangements has encountered a number of obstacles which have limited their effectiveness.

12. [In sum, therefore, requisite progress has not been made in most LDCs during the first half of the 1990s in realizing the overall objective of the Programme of Action. Furthermore, the ongoing processes of economic globalization and liberalization are likely to have profound consequences for the future development of the LDCs: these processes which offer great opportunities for growth and development also entail risks of instability and marginalization. As LDCs have made limited progress in overcoming structural

constraints, infrastructural insufficiencies, debt overhang, promoting and diversifying enterprise and export sector, attracting foreign investment and creating a sufficient technological base, they will face globalization and liberalization from a situation of constraints and a lack of an adequate enabling environment.]

12 bis. [In sum, the policies carried out in most LDCs during the first half of the 1990s have not yet led to the expected progress towards the objectives of the Programme of Action. Still, encouraging progress has been recorded in a significant number of LDCs, as a result of the implementation of appropriate policies and enhanced internal stability. The LDCs should thus pursue their efforts notably with a view to diversifying their economies and attracting foreign investment, in order to meet the challenges of globalization and liberalization under more favourable conditions.]

II. THE POLICY REFORM PROCESS

13. In recent years most LDCs have embarked on a process of structural adjustment and wide-ranging reforms, often under internationally agreed frameworks for structural and sectoral adjustment. Important areas of policy focus have been towards coping with fiscal and balance of payments deficits, improved mobilization and use of domestic resources, through tax reforms, improving the effectiveness of the public sector and providing greater opportunities for the private sector. LDCs have also initiated reforms in critical areas such as population, education, health, food security and trade policy.

14. There are, however, some cases where the pace and scope of these reforms contrast with the [meagre] [varying] results achieved. In particular, despite success in securing short-term macroeconomic stability, certain situations sometimes exist where the reforms appear to have neither helped in lifting structural constraints facing the economies of LDCs nor improved supply capacity and export diversification. Thus while it was recognized that the reform process sometimes could not guarantee immediate results, it was emphasized that the efforts of LDCs provided a context in which, over the long term, growth and structural transformation could reinforce each other [provided adequate support is made available.]

15. The experience of LDCs points towards a number of factors that determined success or otherwise of reform measures. Prime among them has been government commitment to reforms, the appropriateness of national policy contents, sequencing of reforms and the level of external financial support to underpin reform efforts. Problems inherent in policy design, particularly the neglect of structural conditions and endowment-related considerations had retarded, and

even reversed, the momentum of reforms. Inadequate resource mobilization has been a particularly critical constraint in LDCs. [The expectations that substantial external financial flows would be forthcoming to support the reform process has not materialized to the extent necessary.] [The external financial flows that the LDCs expected did not always match their expectations]. [Other factors include: non-availability of critical imports; pursuance of 'selective' rather than 'across-the-board' trade liberalization; lack of dynamism of manufacturing growth; and an unfavourable external environment.]

16. The socioeconomic difficulties of [most] LDCs have been further exacerbated by a specific set of environmental problems such as land degradation and erosion, drought and desertification, which impair prospects for their development. These environmental problems have been aggravated in LDCs by a number of complex and interrelated factors, which include poverty and poverty-linked population pressures and cross-border refugee movements resulting from man-made and natural disasters. A noteworthy development has been that LDCs have demonstrated growing awareness of environmental issues and problems and many have implemented policies, strategies and institutional mechanisms to deal with them. [Additional resources are needed to deal with environmental problems.] [While] a number of LDCs have in addition, made some progress in the area of disaster prevention and reduction, [the focus in dealing with natural disasters has continued to be on ad hoc immediate disaster relief.]

[III. CIVIL STRIFE AND POLITICAL INSTABILITY]

[17. Furthermore, civil strife, political instability and refugee problems in several LDCs have frequently led to armed hostilities, large-scale displacement of population, [alien] [external] influence, food emergencies and a breakdown in the system of governance. Thus, dealing with situations of war and other forms of violence has been the main priority for the Governments concerned and has led to a major diversion of resources and manpower to unproductive expenditures. Under these circumstances, domestic development efforts are at best diminished, and external assistance is focused on humanitarian aid, with decreased emphasis on meeting the requirements of longer-term development. Moreover, the high instability, so pervasive in many LDCs, has caused the loss of resources through capital flight as well as a loss of highly skilled manpower. On the other hand, it is encouraging to note that in several other LDCs far-reaching changes in the system of governance ranging from free elections to democratic constitutional reforms have ushered in new possibilities for establishing more participatory and transparent systems of government. [These changes need to be supported and nurtured.] Indeed LDCs which achieved a revival of economic growth were generally those where greater progress has been made in securing popular participation and respect for human rights.]

[Besides destabilization caused by the presence of a large number of refugees, some LDCs have been obliged to provide asylum with far-reaching implications for budgetary, environmental impacts, other resource needs and related security problems which require urgent concrete international support for these countries of asylum.] [A particularly disquietening trend in many LDCs is the growing incidence of man-made food emergencies arising from wars and related population displacements which has contributed to food insecurity in some African LDCs.]

IV. DEVELOPMENTS IN THE PRODUCTIVE SECTORS

18. During the early 1990s, agriculture in most LDCs has been characterized by lags in production growth relative to that of the population, [continued] declines in terms of trade and loss of market shares for traditional agricultural commodities. Agricultural production growth rates in LDCs fell by 1.1 per cent per annumin per capita terms during the period 1990-1993. Several LDCs responded to the continued poor performance of the sector by introducing reform measures, particularly reforming producer price incentives and marketing systems and provision of essential agricultural inputs. While the overall thrust of these measures has been the removal of barriers to the private sector in agriculture, they have been unable to provide support services. A particularly disquietening trend in many LDCs is the growing incidence of man-made and recurrent natural disasters such as drought, flood, and devastating cyclones which are the most important causes of food insecurity in many African LDCs. The situation has been further exacerbated by declines in food output and limited capacity to offset shortfalls through imports.

19. Notwithstanding the wide variations in the manufacturing growth rates among LDCs, the performance of the manufacturing sector on the whole has weakened in recent years, manufacturing activities have remained relatively undiversified, and utilization of capacity and resources has been low. The sector growth rate decelerated to 1.4 per cent per annum during the early 1990s, from 2.1 per cent per annum in the 1980s. While some one-third of LDCs had maintained a positive growth of manufacturing value-added (MVA) in the 1980s and early 1990s, most LDCs had experienced stagnation and even declines in manufacturing output. The LDCs' response to the deteriorating manufacturing performance has been through adjustments of macroeconomic policies and instruments and sectoral measures to augment manufacturing output and efficiency. At the sectoral level, the LDCs have reoriented their incentive structure and introduced changes in institutional policies and regulatory arrangements in order to improve macro-economic environment for manufacturing production.

20. The LDCs had made major efforts to improve their transport and transit infrastructure systems during the last decade. The budgetary constraints faced by LDCs have, however, gradually undermined the financial capabilities of Governments to maintain the momentum of these efforts. These constraints are particularly felt in land-locked and island LDCs, where inadequate physical infrastructure poses major obstacles to structural transformation and economic development.

V. HUMAN RESOURCES DEVELOPMENT

21. Several LDCs have adopted population policies, measures and programmes to tackle key problems in human resources development. These have been complemented by strong efforts to change attitudes, including persuasion and campaigns relying on traditional and modern information techniques. [Despite all these, the expansion of national population programmes has been difficult for a number of reasons, such as funding constraints, political, administrative and logistical obstacles as well as the scarcity of qualified personnel and family planning services.]

22. [Most LDCs continue to have a high prevalence of disease and high mortality rates, caused mainly by poor sanitation and hygienic conditions and the lack of safe drinking water supplies.] AIDS and tropical epidemic and AIDS endemic diseases have become a major cause of death in recent years in some LDCs as these countries have limited resources to deal effectively with such endemic diseases and epidemics. The economic crisis faced by LDCs has further undermined health conditions in many countries as living standards have fallen, health services have been cut due to budgetary pressures, and the availability of imported medicines and other medical supplies has dwindled. Education services continue to be affected by deteriorating economic conditions, in particular by budgetary constraints. There is a need for investment in the development of human capacities, particularly in programmes of health nutrition, education and training and population activities. [There have been some encouraging results achieved by some LDCs in the areas of health and education.]

23. Although women constitute half of human resources in the LDCs, they have continued to be hampered by their marginal positions from playing their full role in socioeconomic development. Despite measures being taken to enhance their role in development, women in the LDCs still lag behind their male counterparts as well as women from other developing countries in all areas of social and economic development. They face particular problems related to gender discrimination such as limited access to productive resources, restricted education and training opportunities, poor health status, low representation in strategic decision-making positions, as well as having to bear a high dependency burden, more so as deepening poverty is felt more acutely by women-headed

households. In addition, the prevalent attitudes regarding women's abilities and their proper socioeconomic role and women's own lack of knowledge about their rights have kept them away from mainstream development. The lack of follow-up to decisions and internationally agreed recommendations aiming at the advancement of the status of women has also been a major cause of the poor prevailing situation.

VI. EXTERNAL TRADE AND THE IMPLICATIONS OF THE FINAL ACT OF THE URUGUAY ROUND

24. [As economic globalization and liberalization lead to a higher degree of competition, it may become more difficult for export products of LDCs to compete. This may be even more difficult for land-locked LDCs that have to bear higher transportation costs. While globalization and liberalization may enhance opportunities for LDCs in respect of access to non-traditional export markets, there are also challenges for LDCs.] [Economic globalization and liberalization could expose export products of LDCs to a much higher degree of competition than before, particularly in the land-locked LDCs that have to bear high transportation costs. While in some areas these processes may enhance opportunities for LDCs, particularly in respect of access to non-traditional export markets, it is a challenge that LDCs should meet.] Despite recent improvements, world commodity markets have remained volatile. The need to strengthen LDCs' productive capabilities and diversify their exports has thus become even more urgent [contrary to what was envisaged in the Programme of Action, the LDCs have become even more marginalized in world trade in the 1990s.]

25. The extremely low export capacity of most LDCs continued to be one of the major obstacles to growth and a source of their high dependence on ODA for financing necessary investment, imports and technical support for development. The adoption of trade liberalization policies and measures by an increasing number of LDCs was welcomed. It was however noted that difficulties persisted in expanding LDCs' external trading opportunities. Commodity and market diversification measures have been rendered difficult principally by lack of investment, technology and skills to augment levels of production and efficiency.

26. LDCs have been granted special tariff preferences under the various GSP schemes and other preferential arrangements but their use, particularly by African LDCs, has been limited. Only a part of the GSP-covered imports from these countries has received preferential treatment. Besides institutional and human resource constraints in LDCs, the limited use of GSP schemes has also been due to the exclusion from certain schemes of a number of products of export interest to LDCs (e.g. textiles and clothing, carpets, footwear and leather

goods, etc.) and the unfavourable rules of origin of some schemes. [Other important schemes, however, provide very liberal access for LDCs exports.]

27. [The adoption of the Final Act of the Uruguay Round marks a shift away from a trading environment in which preferences were a major factor in the competitiveness of LDCs' exports, which will have significant consequences for the trading prospects of LDCs.] [The adoption of the Final Act of the Uruguay Round will have significant consequences for the trading prospects of LDCs, in particular as regards preferences and competitiveness of LDCs' exports.] It was noted that the LDCs had to accept the overall package of the Uruguay Round in its entirety as a single undertaking.] [Since it had been agreed that the results of the Uruguay Round had to be accepted as a single undertaking, LDCs had to accept the overall package in it entirety,] thus involving assumptions of obligations on their part as well as securing advantages. While the new arrangements provide LDCs with new opportunities, concerns have been expressed as to the possibilities that LDCs may suffer erosion of preferential margins in many of their exports to major markets and, a possible consequential loss in export market shares and export earnings. In addition, the net food-importing LDCs may face higher import bills, at least in the short-run, resulting from the agreement on agriculture. In the longer run, the Final Act poses to LDCs the twin challenges of, first, developing and strengthening institutional and human capacities to formulate and manage legislation implementing the complex set of agreements of the Round, and secondly, building capacities for maximizing opportunities arising from these agreements. In this regard, the provisions of the Marrakesh Declaration and the Ministerial decisions were recalled.

28. [Trade among the LDCs, on the one hand, and that between LDCs and other developing countries within the same subregional or regional economic grouping, on the other hand, is insignificant as a share of international trade. Appropriate measures should be taken to promote, support and strengthen trade initiatives of the LDCs in these subregional and regional groupings.]

VII. EXTERNAL FINANCE

29. [It was noted with concern that] ODA remains the single most important source of external financing for LDCs. [Since the adoption of the Programme of Action some donors have improved their aid performance, which is to be welcomed, although the targets set in the Programme of Action have not been fully met. The donors' commitment to devote 0.15 per cent or 0.20 per cent of their GNP as ODA to LDCs has not so far been achieved due to stringent budgetary and financial constraints. In fact the ODA/GNP ratio for DAC donors as a whole had declined from 0.09 per cent in 1990 to 0.07 per cent in 1993. Moreover, the uncertain resource situation outlook of the main multilateral financial institutions and grant-based programmes should be noted, in view of the

importance of multilateral aid for the LDCs.] [While welcoming improved aid performance by some donors, it was noted with regret that the overall donors' aid performance fell short of the commitments undertaken in the Programme of Action. ODA flows (actual disbursements) from DAC countries, and multilateral agencies mainly financed by them, to the LDCs declined sharply in 1993. In absolute terms, ODA flows fell by $1.5 billion. Almost $1 billion of this was due to a drop in multilateral aid flows to LDCs. In view of the important role of multilateral funding in meeting LDCs' financial needs and the uncertain resource outlook for some of the major multilateral financial institutions and grant-based programmes, this is a particularly worrying development. The ODA/GNP ratio for DAC donors as a whole declined to 0.07 per cent in 1993 as compared to 0.09 per cent in 1990. Moreover, this shortfall has to be seen against the agreed menu of targets and commitments which call for a significant and substantial increase in resources to LDCs and include, inter alia, the targets of 0.15 per cent and 0.20 per cent of donors' GNP as ODA.]

30. [Certain positive developments have taken place in the areas of aid modalities and effectiveness. Most DAC donors have now shifted to a grant basis in their aid programmes for LDCs, resulting in a further increase in the grant element of bilateral ODA, (which averaged 97 per cent in 1993). Most multilateral funding to LDCs is also on highly concessional terms.] [International efforts to mobilize resources to LDCs implementing structural adjustment programmes, like the World Bank-led SPA process, have produced positive results.]

VIII. EXTERNAL DEBT AND RELIEF MEASURES

31. [The external debt stock and its servicing burden remains exceptionally high for most LDCs. At the end of 1993 their total debt stock stood at $127 billion, an estimated 76 per cent of their combined GDP (for half the LDCs the size of the debt stock equalled or exceeded their respective GDP).] [The external debt burden remains a crucial issue for some LDCs. According to the OECD/DAC information, LDCs' total debt stock amounted to $ 127 billion in 1993, corresponding to 76 per cent of their combined GDP. It appears that for half of these countries, their external debt is equal to or exceeds their GDP.] The difficulties many LDCs have in meeting their external obligations, in the context of the critical current economic situation and their poor export performance, are reflected in the relatively low levels of debt service paid in relation to scheduled payments. [The share of multilateral debt in total long-term debt, as well as debt service, has increased considerably in recent years. Thus, in 1993 multilateral debt constituted around 36 per cent of LDCs' total debt as compared with 27 per cent in 1984. The corresponding share in total debt service during this period increased even more from less than 30 per cent to almost 50 per cent.] [In this respect, the share of obligations to

multilateral institutions in total long-term debt represented around 36 per cent of LDCs' total debt in 1993 as compared with 27 per cent in 1984. During the same period, the share of multilateral debt service in LDCs' total debt service increased from less than 30 per cent to almost 50 per cent.] [Debt relief measures taken so far have proved to be inadequate to provide an effective and durable reduction in LDCs outstanding debt and debt-servicing burden. Although, in late 1994, the Paris Club reached agreement on new terms (the Naples terms) for the poorest and most indebted countries, these terms (and in particular the debt stock reduction option) are likely to be implemented for a relatively small number of countries, and the new terms by themselves are not likely to be sufficient to resolve the LDCs' external debt problem.] [It was felt that debt relief measures were highly conditional and therefore cancellation of debt appears to be a more desirable solution.] [It should be noted that important relief measures have been taken to reduce LDCs' debt stock and debt service obligations. In particular, following the adoption of the Toronto terms in 1988 (and enhanced Toronto terms in 1991), from which 28 countries benefited, the Paris Club in 1994 decided to take a step forward in the debt treatment of the poorest countries, by agreeing on the "Naples terms". Nine countries, of which six are LDCs, have already benefited from these provisions, which notably offer the possibility to reduce the debt of the poorest and most indebted countries by 50 to 67 per cent.]

IX. ARRANGEMENTS FOR IMPLEMENTATION, FOLLOW-UP AND MONITORING OF THE PROGRAMME OF ACTION

32. In addition to the regular follow-up, monitoring and review of progress in the implementation of the Programme of Action at the global level by the Trade and Development Board, arrangements have also been made to ensure the full mobilization and coordination of all organs, organizations and bodies of the United Nations system for the purpose of the implementation and follow-up of the Programme of Action. Individual agencies have continued to develop and implement assistance programmes for the LDCs and pursued their advocacy and policy advisory missions with regard to these countries. There is a need for regular reporting about the monitoring of progress made by various agencies.

33. At the country level, review arrangements, including the UNDP-sponsored round-tables and the World Bank consultative and aid groups, have been further consolidated during the early 1990s with additional countries joining or rejoining the process and meetings taking place more frequently and on a more regular basis. In all, over 60 full-scale consultative aid groups and round-table or similar meetings were organized since the adoption of the Programme of Action until early 1995. While results in terms of resource mobilization have varied among countries, these meetings no doubt have an important role to play in improving aid flows to LDCs and in aid coordination.

PART TWO: POSSIBLE RECOMMENDATIONS

34. Possible recommendations are based on the draft assessment of progress in the implementation of the Programme of Action for the Least Developed Countries for the 1990s presented in Part one as well as on information contained in the Least Developed Countries Report 1995 and recommendations made by the Expert Groups convened by the UNCTAD secretariat as part of the preparations for the High-level Meeting which will carry out the Mid-term Global Review on the implementation of the Programme of Action. These recommendations cover a number of key areas of concern for the LDCs.

I. REFORMS

A. Major Challenges

35. The challenges facing LDCs in the second half of the 1990s are to reverse the decline in economic and social conditions, to promote sustainable economic growth, development and structural transformation and to avoid becoming further marginalised in the international economy. An intensified policy commitment by both LDC governments and the international community will be required to meet these challenges. In implementing domestic policies, LDCs would endeavour to focus on measures to restore and maintain macroeconomic stability, to promote the growth and diversification of exports, to strengthen an enabling environment for private sector investment and entrepreneurship, to enhance human resources development, [to promote appropriate population policies] to strengthen the infrastructure and to promote good governance as mentioned in the Programme of Action [through the promotion of political stability, popular participation, protection of minorities and the peaceful resolution of civil conflicts.] The broad outlines of a domestic economic policy framework conducive to meeting the challenges facing the LDCs are delineated below.

B. The Economic Policy Framework

36. (a) [Macroeconomic stability necessitates avoiding excessive public sector deficits, [observing rules of the sound management of bank credits,] restraining monetary growth and maintaining realistic exchange rates commensurate with ensuring a sustainable external balance.]

(b) [Exchange rate and trade policy measures to expand export earnings,] [policies to increase export earnings including appropriate exchange rate and trade policy reforms] to reverse the decline in the LDCs' share of world trade, diversify the composition of their export structure and facilitate their ability to exploit opportunities arising from the Final Act of the Uruguay Round are essential.

[Appropriate actions should be taken, consistent with the Final Act of the Uruguay Round of multilateral trade negotiations, in particular the decision on measures in favour of the LDCs and the decision on measures concerning the possible negative effects of the reform programme on the LDCs and the net food importing developing countries, in order to give these countries special attention, with a view to enhancing their participation in the multilateral trading system and to mitigating any adverse effects of the implementation of the Uruguay Round.]

(c) Policy measures are needed to enhance the supply capacities of LDC economies, particularly in the agricultural, infrastructural, industrial, services and export sectors, if sustainable growth and structural transformation is to be achieved. This will entail the provision of appropriate [a framework appropriate for] [incentives for] private sector investment complemented with public investment and support for the private sector in areas such as infrastructure, technological capacity building, agricultural extension services, vocational training and provision of finance, etc.

[(c) bis. The potential of economic and technical cooperation between LDCs and other developing countries merits further exploration. The international community should help LDCs participate effectively in subregional and regional trade. Such trade could be promoted by identifying complementarities in production structures among countries, strengthening the institutional and human capacities for the operation of subregional trading arrangements, establishing subregional trade information networks, and associating the private sector more closely with the integration process. There are potential gains for the LDCs in participating in the Global System of Trade Preferences among Developing Countries. LDCs should be encouraged to accede to GSTP and be provided with appropriate technical assistance to enable them to benefit fully from the system.]

(d) The growth of a dynamic private enterprise sector requires an appropriate economic, fiscal and legal framework. Essential features of this framework are: stable and predictable policies; tax, monetary and trade policies which ensure adequate incentives for investment; and a legal system which protects property rights and commercial contracts.

(e) Enhancing human resource development is imperative if LDCs are to raise productivity, output and living standards. [With the support of the international community], governments should [intensify] [be encouraged and supported in their] efforts to raise education standards, improve the health status of their populations [and strengthen the status of women by implementing population policies in accordance with the provisions of the Declaration and

Programme of Action of the 1994 United Nations Conference on Population and Development, in Cairo,] and expand the provision of basic services and utilities.

(e) bis. To enable women in the LDCs to play their full role in development, efforts should focus on overcoming the practical constraints faced by women as regards their access to social services and to productive resources; adopting affirmative actions when necessary; and involving women directly in planning, decision-making, implementation and evaluation of programmes and projects which concern them. Special initiatives and innovative schemes which can give women increased access to credit, training, information on marketing channels, as well as other support services to alleviate the burden of their role as mothers and housewives should be adopted.

(f) The economic policy strategies adopted by the LDCs should be consistent with the need to [eradicate] [alleviate] the chronic levels of poverty afflicting these countries, in particular [by promoting the development of private sector and enterprenership, by ensuring that people have access to land, credit, information and other productive resources, and benefit from a policy and regulatory environment that enhances their overall capacities and empowers them to benefit from expanding employment and economic opportunities.]

(g) LDC Governments are attempting to implement comprehensive structural adjustment reforms in very difficult circumstances, often in the face of severe administrative and financial constraints. Many of the constraints that they face are structural, deep-seated and not amenable to short-term solutions. Consequently successful structural adjustment reforms require government commitment to reform, and a medium-to long-term perspective for implementation.

[In order to ensure that structural adjustment programmes include social development goals, in particular the eradication of poverty, the generation of productive employment and the enhancement of social integration, Governments, in cooperation with the international financial institutions and other international organizations, should:

- Protect basic social programmes and expenditure, in particular those affecting the poor and vulnerable segments of society, from budget reductions;

- Review the impact of structural adjustment programmes on social development by means of gender-sensitive social-impact assessments and other relevant methods, and develop policies to reduce their negative effects and improve their positive impact;

- further promote policies enabling small enterprises, cooperatives and other forms of micro-enterprises to develop their capacities for income generation and employment creation.]

(h) [Unless adequate levels of external finance are made available to support structural adjustment programmes by the international community, there is a serious danger that the sustainability of the reform process will be undermined and that the long term objectives will be jeopardized.] [The reform process should be pursued with the effective support of donors.] [Measures to expand the scope of external debt relief combined with an increase in concessional finance from the donor community are imperative to support the efforts of the LDCs to revitalize and restructure their economies.]

II. EXTERNAL TRADE [AND INVESTMENT]

[The extremely low absolute] [A too low] level of export receipts of the LDCs, as well as their fluctuation and the resulting sharp limitation on the capacity of these countries to import is one of the major structural constraints to developing their trade. This situation is more acute in the case of land-locked countries as their external trade is further impeded by high transportation costs. Actions by the international community can help LDCs efforts to increase export earnings through increased production in both the traditional and the modern sectors of the economy through diversification of the commodity structure and [direction of trade and securing remunerative prices] for their export commodities. It can also help LDCs [to tide over the unfavourable consequences of the Final Act of the Uruguay Round] and to better integrate themselves into the international trading system. The following international support measures [should be implemented] [could be considered in this regard]:

- operationalization, through translating into concrete actions, of the Marrakesh Declaration as it relates to LDCs, as well as the Marrakesh Ministerial decisions for LDCs and net food importing countries, taking into account the impact of the trade liberalization and LDCs' relatively weak capacities to participate in an increasingly competitive global market in goods and services; [operationalizing the decisions of the Marrakesh Ministerial Meeting in favour of LDCs and net food importing countries, taking into account also that the majority of LDCs are net food importing countries.]

- improvement of the GSP schemes through, where possible, the widening of product coverage [to include all products of export interest to the LDCs] [taking into account products of export interest to the LDCs], reducing procedural complexities, avoiding frequent changes in the schemes;

- [further liberalization of the rules of origin]; [reduction] [elimination] of tariff escalation through improvement in schemes that affect mainly their semi-processed tropical agricultural and natural resource-based products;]

- [providing deep preferential tariff cuts or complete duty [reduction] [elimination] under GSP or other preferential schemes for products still subject to high tariff peaks, e.g. agricultural products, fish and fish products, leather and footwear and textiles and clothing. There should be [more] flexible use of the rules of origin to encourage efforts towards industrialization and expansion of the export base;]

- [anti-dumping and countervailing duties and safeguard action should not be taken against imports from LDCs, the LDCs should be exempted from any cumulative assessment of injury; advance policy pronouncements to this effect would positively influence investors' decisions in the LDCs, encouraged by the predictability of market-access conditions;]

- [as for textiles and clothing, LDCs should be exempted from all restrictions during the ten-year transition period (whether or not members of WTO) to enable them to build up their export capacity and improve their competitiveness;]

- [as for textiles and clothing, LDCs, all of which are either new entrants or small suppliers, should be exempted from all restrictions during the ten-year transition period (whether or not members of WTO) to enable them to build up their export capacity and improve their competitiveness;]

- in order to promote more trade with the LDCs, developed countries should [consider] setting up, in their own countries, import promotion agencies as already done by some countries. Such agencies would provide support services and act as contact points for business/trade missions from LDCs, undertake market research and give publicity to LDCs' products. In addition, the trade and investment promotion agencies of developed and developing countries

[should] [could] be invited to consider modalities for identifying new opportunities in particular sectors and markets for the benefit of LDCs;

- in the area of services, while efforts should be directed at building and strengthening efficiency and competitiveness of the LDCs' [emerging] [infant] domestic service sectors, their participation in trade in services could be enhanced by: [effective application of Article IV of GATS on a unilateral basis] [through negotiated specific commitments] in favour of the LDCs, to liberalize sectors and modes of supply [i.e. movement of persons] of interest to them; facilitating their access to information networks and distribution channels and to technology [on a commercial basis] and by giving [priority] [facilitating] access to information to LDCs' service suppliers, to be made available through contact points to be established in accordance with GATS. [Priority should be given to LDCs in respect to movement of labour for providing services to other countries.]

- [setting up a 'safety net' (including additional financial flows, compensatory financing, greater trade preference, support measures in the area of foreign investment and technology transfer, etc.) during the process of adjusting to the liberalized trade order in the post Uruguay Round era to cushion the impact on LDCs;]

- [increased] [effective] technical and financial assistance to enhance their supply capacity of tradeable goods and services and improve infrastructure.

- continued support to commodity diversification efforts, inter alia, by providing financial and technical assistance and enhancing market access opportunities for LDCs, [ensuring that trading opportunities of LDCs are not subject to conditionalities such as social clause, environmental standards, etc.]

- [provide specific fiscal and financial incentives by home countries of foreign investors to encourage foreign investment in LDCs.]

- [promotion of South-South and regional cooperation to enhance market access for LDCs by neighbouring countries. Measures should be taken to grant duty-free access to the exports of LDCs on a non-reciprocal basis by the more advanced among developing countries and also to augment resources for promoting economic cooperation among developing countries (ECDC) and technical cooperation among

developing countries (TCDC) through multilateral and bilateral institutions. The more advanced among developing countries should, inter alia, introduce GSP schemes for LDCs.]

III. EXTERNAL FINANCE

[LDCs' overwhelming dependence on ODA is likely to continue unabated during the rest of the present decade and beyond. The basic policy issues that the international community faces in this respect in the current climate of budgetary stringency and ODA scarcity are: (a) how to improve aid allocations to the LDCs; and (b) how to enhance the quality and effectiveness of assistance to these countries. Donors need to implement expeditiously the aid targets set out in the Programme of Action and fulfil their commitments to provide a significant and substantial increase in the aggregate level of external support to LDCs, keeping in mind the increased needs of these countries, as well as the requirements of the new countries included in the list of LDCs following the Paris Conference.]

[The following requirements for measures and actions by donors can be highlighted:

- specific measures to incorporate the targets and commitments set out in the Programme of Action more explicitly into donors' national aid strategies and budgetary planning mechanisms;

- ensure adequate funding of the multilateral institutions and programmes which are major sources of financing for LDCs. Particular attention will have to be paid to [generous] replenishment of IDA and the soft-term windows of the regional development banks, as well as of the European Development Fund (EDF) and other grant-based multilateral programmes. [The possibility of tapping new sources of funds, such as special drawing right (SDR) allocations and IMF gold sales, to help support LDCs' development efforts should also be explored;]

- [provide funding from new sources such as IMF gold sales and SDR allocations;]

- [to increase the share of LDCs in the operational activities of the United Nations system for development;]

- to increase substantially the allocation of core and non-core resources of UNDP to LDCs during the sixth cycle commencing in 1997, [and similarly increase resources for LDCs through other United Nations agencies;]

- provide substantial support to adjustment programmes in LDCs on a timely basis and on terms adapted to LDCs' special needs and circumstances, as well as additional financial support for poverty eradication, environmental protection and social programmes;

- [an increased level of technical assistance should be provided to LDCs and priority should be given to skill transfer;]

- [ensure the maintenance of transparency and accountability in the management of aid resources by the aid officials of donor countries/organizations;]

- [the international community should support the measures being taken in LDCs to eradicate poverty. Increased resources should be made available in this regard.]

[Official development assistance will remain of great importance to the LDCs until the end of the decade. In this respect, special attention should be given to aid quality and effectiveness. The commitments undertaken in the Programme of Action in 1990 for the duration of the decade retain all their validity and importance. The donor countries will spare no effort to implement them within the time frame set out in the Programme of Action, even though they are experiencing certain budgetary constraints.

The various provisions in this area adopted by recent major United Nations Conferences should also be taken into account, in particular the World Summit for Social Development in Copenhagen. In view of the enhanced assistance capacities of a number of developing countries over the last few years, they should be invited to join the traditional donor countries in providing assistance to the LDCs.]

IV. EXTERNAL DEBT

[Further debt relief measures, including, in many cases, a substantial reduction of their outstanding debt stock, are needed to help LDCs redress their economies. The following would be essential elements in a debt-reduction strategy for LDCs:

1. Official bilateral debt

- measures to implement ODA debt-cancellation programmes in accordance with UNCTAD Trade and Development Board resolution 165 (S-IX) expeditiously and across-the-board with a view to completely eliminating LDCs' remaining ODA debts. This would require setting

up debt-cancellation programmes similar to the existing ones by all major creditors still holding such claims (including non-OECD creditors);

- intensifying measures in the Paris Club, with a view to ensuring full forgiveness of all official bilateral debts of LDCs;

- equivalent debt-relief measures by other official creditors, including by setting up special debt-reduction programmes such as possible tripartite arrangements involving the debtor country, creditor country/creditors and concerned third parties (e.g., current main donors and relevant international financial institutions);

- write off all debts arising from bilateral official non-concessional assistance.

2. Multilateral debt

- setting up donor support groups for LDCs in protracted arrears to the Bretton Woods institutions and offering grant assistance programmes to help them settle their overdue obligations;

- enhanced support in the form of supplemental credits through the World Bank "fifth dimension" and similar schemes, refinancing arrangements and bilateral donor support to help LDCs meet current debt-service payments on their remaining non-concessional multilateral debt and to reduce debt stocks for countries with unsustainable multilateral obligations;

- all non-concessional debt should be converted into debt on IDA terms.

3. Commercial debt

- use of debt reduction facility (DRF) to reduce substantially LDCs' commercial bank debts, supplemented by other debt buy-back and debt-conversion schemes;

- provide external financing on non-debt creating terms.

Consideration could also be given to an extension of DRF or setting up a DRF-like mechanism to cover other types of debt, e.g. under tripartite debt-reduction programmes suggested above. Furthermore, in accordance with the

Declaration of the World Summit for Social Development, techniques of debt conversion applied to social development programmes and projects should be developed and implemented.]

[The international community, including the international financial institutions, should implement as soon as possible the relevant paragraphs of the Declaration and Programme of Action adopted by the World Summit for Social Development in Copenhagen, relating to LDCs' external debt, as concerns official bilateral debt, multilateral debt and commercial debt.

Paris Club creditors are invited to implement as soon as possible the very concessional treatment under the "Naples terms" for the poorest and most indebted countries. Other creditors are also invited to take similar measures in order to alleviate the debt of LDCs.]